



TOWN OF LOS GATOS

CIVIC CENTER
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May 7, 2003

Honorable Mayor and Town Council:

I am pleased to present to you the proposed FY2003/04 Proposed Operating and Capital Budget for the Town of Los Gatos and Redevelopment Agency. This document includes the Town's Proposed Operating Budget for FY 2003/04, also incorporating the Preliminary FY 2003-2008 Capital Improvements Program, and the Proposed FY 2003-2008 Redevelopment Agency Budget, allowing for a comprehensive summary of all Town operating, capital and Redevelopment Agency financial activities. This document presents a comprehensive financial plan to meet the Town's current fiscal challenges.

The budget was prepared to adhere to the following principles: the discipline of sound fiscal and budgeting practices; using best management practices to preserve core service levels to the community; maintaining associated staffing levels providing vital community services where practical and possible through a variety of strategies; and maintaining a progressive approach using a five-year financial planning horizon to navigate through revenue declines expected by staff to continue into FY 2003/04.

The Town's FY 2003/04 budget development occurred in a challenging fiscal year, in the midst of current and forecast local revenue downturns related to the economy, the State budget crisis, and escalating expenditures due to increases in FY 2003/04 resulting from previously bargained for labor agreements. The local downturns in revenue are due chiefly to declines in economically sensitive sources such as Sales Tax, Franchise Fees, Transient Occupancy Tax, Business License Tax, and Interest Income. These downturns are attributable to the national and regional recessions' impacts on the local economy and consumer spending patterns, especially evident in the Sales Tax revenue category. The State budget deliberations and their effects on the Town are not known with certainty at the time this budget was prepared. The Town is actively engaged with the League of California Cities to prevent State revenue takes resulting from the State budget process this summer in Sacramento, but to be fiscally prudent the Town's FY 2003/04 budget plan does assume a moderate level of State revenue takes in FY 2003/04.

The budget plans developed by staff are at two levels, described as Tier I and Tier II. The Tier I budget is the budget that is being recommended to the Town Council for adoption. Simultaneous with the development of the Tier I budget was the development of a Town-wide Tier II plan. The Tier II plan assumes a more severe downturn in revenues, largely as a result of the uncertainty resulting from the State budget crisis. The Tier I budget and the Tier II plan were both developed following the principles described above, and both tiers include unavoidable service level reductions to the community to be described later.

It is proposed that the Town Council adopt the recommended Tier I budget for FY 2003/04, but management will also be prepared to implement the required amount of Tier II budget reductions, if necessary, once the revenue picture for FY 2003/04 becomes clearer. The Tier I budget and the Tier II plan are structured to balance operating revenues and operating expenditures, except for the continuation

of the rebate to the General Fund of some excess balances in the Town's Internal Service funds. In the case of the Tier II budget, some potential limited use of reserves is contemplated to provide funding for one-time transitional expenditures as soon as practical if necessitated by a more severe revenue downturn scenario as contemplated in the Tier II plan.

As part of the development of the prior year budget, staff identified excess balances that had accumulated in a number of the Town's Internal Service Funds. Staff proposed at that time that these funds could be returned or "rebated" to the Town's General Fund to help fill the operating revenue versus expenditure gaps resulting from the forecast downturn in local revenues. The plan is to rebate these balances by progressively lower amounts (FY 2003/04 rebate amount is 80% of FY 2002/03 amount) over a five-year period to allow some time for the local economy to recover and replace the rebates. The Town's five-year financial plan incorporates these rebates as part of the overall strategy to mitigate the current economic slump and balance the operating budget over the longer term.

Discussion of Tier I plan reductions and potential Tier II reductions are provided in more detail following the Current Financial Outlook section. The discussion will focus on departmental reductions and service level impacts to the community contemplated both in the recommended Tier I budget to be adopted in June 2003, and the contingent Tier II plan should their implementation become necessary.

CURRENT FINANCIAL OUTLOOK

The FY 2003/04 proposed Tier I Operating Budget presents a conservative financial plan in response to the economic slowdown experienced in FY 2002/03, the continued uncertainty about the State of California budget crisis and the future economic conditions in the Bay Area and more locally, Los Gatos and Silicon Valley.

The Town's approach to budget development for FY 2003/04 was to develop a budget that was approximately six percent lower than adopted FY 2002/03 General Fund budget of approximately \$24.5 million. This reduction achieves a balance of ongoing operating expenditures with ongoing operating revenues and is referred to as the Tier I recommended budget. This effort presented a great challenge to all Town departments as costs such as negotiated salary and benefits provided to Town employees continue to rise while departments strive to reduce the budget. As a result, the impact of a six percent reduction in a department's budget may equate to a ten to twelve percent reduction in operational expenses to accommodate the increased labor costs scheduled for FY 2003/04.

All proposed reductions brought forward by each department were analyzed to ensure that public service level impacts were minimized as much as possible. It is important to note that these proposed reductions are in addition to those made in FY 2001/02, in the FY 2002/03 Adopted Budget, and at mid-year FY 2002/03. Consequently, it is inevitable that Tier I budget reductions do involve some declines in existing service levels. These are discussed later in the budget transmittal letter.

As of April 2003, the Bay Area economic recovery forecast in the Fall of 2002 for Spring, 2003 has not materialized and appears to continue to be delayed by the lingering effects of national recessionary forces, uncertainty about the aftermath of the war in Iraq, and in particular the technology sector's slow recovery which has negatively impacted the Silicon Valley economy. During FY 2002/03 the Town revised its General Fund revenues downward from \$24.5 million to an adjusted revenue budget of \$23.3 million. As the continuing economic slowdown experienced in FY 2002/03 impacted a number of major revenue sources to the Town, particularly Sales and Transient Occupancy Tax collections, FY 2002/03 Sales Tax estimates were reduced from \$7.5 million to \$7.0 million and Transient Occupancy Taxes were reduced from \$1.1 million to \$800,000.

FY 2003/04 budget assumptions project either decreasing or flat-to-moderate revenue growth. The projections for key revenues, such as Sales Tax and Transient Occupancy Tax for FY 2003/04 have been lowered even further to equate to levels collected by the Town prior to the “economic bubble” years of FY 1999/00 through FY 2000/01. The Town continues to face possible negative impacts to local revenues as a result of the State of California’s attempt to balance its budget, in light of the deficits the State is projecting for FY 2003/04.

The recovery in the local economy still appears to be delayed and Town staff is not expecting any growth in economically dependent revenues, except for some growth in Property Taxes reflecting the continued real estate activity in Los Gatos. The local economy is not likely to grow until the valley’s economic fortunes reverse. The Wall Street Journal reported on Wednesday, April 23, 2003, that “nearly one in five jobs in Santa Clara County, the heart of Silicon Valley, has vanished in the past 26 months, more than 10 times the rate of job loss in the rest of the country...leaving the job base roughly what it was in 1996.” Additionally, development activity, a barometer of local economic strength is estimated by the Community Development Department to be fairly consistent with levels seen in 2002/03, continuing at a more moderate level than their highs in recent years.

Major revenues likely to remain flat or slightly reduced from their adjusted FY 2002/03 levels are Sales Tax, Franchise Fees, Interest Income, and Transient Occupancy Taxes. Sales Tax collections during FY 2002/03 declined by more than \$500,000 from their adopted levels. A recent forecast prepared by the Town’s Sales Tax auditors conservatively projects FY 2003/04 collections to be \$6.8 million, a \$200,000 reduction from the FY 2002/03 adjusted budget amount of \$7.0 million. The Town does have a small number of companies in general retail or specialty merchandise that appear to be on a successful growth trend for the future. With regard to Sales Tax, it is important to note that the Town receives only 1 cent of every \$1.00 in Sales Tax generated.

Franchise Fees were lowered approximately \$80,000 to reflect the slowdown in economic activity, specifically the Garbage Franchise Fees have been negatively impacted by a slowdown in construction and demolition activity. Transient Occupancy Taxes increased slightly from \$800,000 to \$900,000, a gradual improvement aided by the new hotel which opened in town in December 2002. Interest Income was lowered by \$350,000 from the prior year due to historically low yields available in the market, and a lower portfolio size resulting from the aggressive capital improvement and street reconstruction program carried out in the past two fiscal years. Property Taxes are forecast for moderate growth related to turnover in the Town’s housing stock. The housing market in Los Gatos remains strong, reflecting the continued desirability of the Town among prospective home buyers. Property Taxes are forecast to be \$300,000 above the prior year. Though the growth in Property Tax estimates is positive, this revenue source is limited in its availability to fully fund Town services. The Town currently receives approximately 12% of each property tax dollar paid by Town property owners. The remaining 88% is distributed to other taxing jurisdictions like local school districts, the County of Santa Clara, fire protection districts, and other special districts that serve the community.

Due to the flat revenue growth projected for General Fund revenues in FY 2003/04 based upon revenues that had already experienced downturns, the Town does not anticipate large amounts of General Fund savings for potential use in its capital program for FY 2003/04. However, this budget continues to dedicate a transfer of \$75,000 to the Capital Improvement Program (CIP) to fund the Town’s commitment for the Town’s capital program. If, at year-end, the budget savings or General Fund revenues exceed estimates, Town Council can designate all or some portion of this excess to the capital program through a budget adjustment in FY 2004/05. As noted in the CIP, due to prudent historical Council decisions, the approved CIP is projected to be fully funded through FY 2007/08 and dedicates approximately \$15.4 million over a seven-year period beginning in FY 2001/02 to Town-wide street repair and resurfacing work.

Overall, General Fund revenues are estimated to decrease 8.86% for FY 2003/04 from the FY 2002/03 adjusted revenues. Town staff has offset this loss in revenue with Tier I budget reductions that maintain a balanced budget. However, with economic times still uncertain and the possibility looming of potential future State reductions to local revenues, the Tier I recommended budget may need to be augmented by further reductions as laid out in the Tier II budget plans developed by Town staff. Given the existing economic uncertainty and service level impacts from Tier I reductions, coupled with the Town's ambitious work plan in place, this budget limits the number of new FY 2003/04 operating budget initiatives for Council consideration.

PROPOSED FY 2003/04 GENERAL FUND BUDGET OVERVIEW

The proposed FY 2003/04 General Fund Operating Budget projects a balanced budget of \$23,500,441 in operating revenues and \$23,500,441 in net operating expenditures after deducting expenditures that are one-time in nature or are discretionary from year to year depending upon available funding.

	Proposed Budget FY 2003/04
General Fund Revenues	\$ 23,500,441
Budgeted General Fund Expenditures:	\$ 24,108,863
Less One-Time or Discretionary Expenditures:	
Second year of Parking Program Start-Up Costs	\$ (199,580)
Manager's Contingency Appropriation	(100,000)
Manager's Productivity Initiative Appropriation	(100,000)
Capital transfers to GFAR & Other One-time Adj.	(208,842)
General Fund Expenditures (After Adjustments)	\$ 23,500,441

FY 2003/04 budgeted expenditures total \$24,108,863. To balance this expenditure level with budgeted revenues, the above presentation displays adjustments for expenditures that are funded by reserves set aside for that purpose, such as the budgeted \$199,580 transfer to the Town's Parking Fund. This transfer supports the one-time start-up costs of the new Parking Program funded by the General Fund Parking Reserve. Other expenditures included in the Proposed FY 2003/04 budget include the Manager's Contingency (\$100,000) and Productivity (\$100,000) accounts, the scheduled GFAR capital program transfer of (\$75,000) and the Cable TV renewal negotiation allocation of \$100,000, which was previously programmed but unspent in prior years, among others. Reserve sources to fund one-time or discretionary expenditures include the Manager's Contingency and Productivity Reserves (\$200,000) and approximately \$400,000 in excess undesignated beginning fund balance from FY 2002/03 that is available to be applied to the remaining \$208,842 of largely one-time in nature expenditures. Staff continues to refrain from using any portion of the Reserve for Economic Uncertainty (which remains intact at \$3,678,000) for these one-time or discretionary expenditures under the Tier I budget.

The revenue projections described above are staff's best estimate at the time of budget development. Town revenues will be monitored actively in FY 2003/04 to ensure they are tracking with budget estimates, with Tier II plans in place (discussed later) and ready to pro-actively address, if necessary, any material downturns in operating revenues.

General Fund Revenue Forecast

The following table presents a summary of the General Fund revenue sources for the FY 2002/03 Adopted Budget, the FY 2002/03 Adjusted Budget, and the FY 2003/04 Proposed Budget:

	Adopted Budget FY 02/03	Adjusted Budget FY 02/03	Proposed Budget FY 03/04	Percentage Change from Adopted
General Fund Revenues				
Property Tax	\$ 5,106,000	\$ 5,106,000	\$ 5,338,006	4.54%
Sales and Use Tax	7,500,000	7,000,000	6,800,000	(9.33%)
Transient Occupancy Tax	1,100,000	800,000	900,000	(18.18%)
Franchise Fees	1,039,000	957,000	896,400	(13.72%)
Business License Tax	1,000,000	1,000,000	1,065,000	6.50%
Other Licenses and Permits	750,500	750,500	761,000	1.40%
Motor Vehicle In Lieu Fee	1,749,000	1,632,000	1,632,000	(6.69%)
Intergovernmental	1,212,700	1,212,700	1,368,804	12.87%
Current Service Charges	2,099,975	2,296,825	2,272,111	8.20%
Fines and Forfeitures	78,500	78,500	192,000	144.59%
Interest Income	1,596,850	1,107,000	1,157,100	(27.54%)
Other Sources and Other Taxes	277,857	277,857	144,000	(48.17%)
Total Fund Transfers	1,088,700	1,088,700	974,020	(10.53%)
TOTAL Operating Revenues	24,599,082	23,307,082	23,500,441	(4.47%)
Less: 1991 & 2002 COP Debt Service Reimbursement	(250,000)	(250,000)	(930,878)	
Authorized Use of Reserves	779,395	-	408,842	
TOTAL Operating Revenues & Other Sources	\$ 25,378,477	\$ 23,307,082	\$ 22,978,405	(9.46%)

Property Tax collections, the second largest source of revenues for the Town, are projected to increase 4.54% above the 2003/04 adopted budget. The increase is lower than the approximately 9-10% increase experienced in recent years. The budgeted property tax increase for FY 2003/04 is largely attributable to new construction and change of home ownership in the Town.

Sales Tax collections, the largest General Fund revenue source, show a 9.33% decrease from the FY 2002/03 Adopted Budget; however, this figure was revised to \$7,000,000 at the FY 2002/03 mid-year Budget review to account for the continued effects of the economic downturn. Staff is projecting a sales tax collection decrease to \$6,800,000; \$200,000 below the prior year's revised estimates of \$7,000,000.

Transient Occupancy Tax estimates reflect a \$100,000 increase from the FY 2002/03 Adjusted Budget estimate of \$800,000. In FY 2002/03, these estimates were lowered by \$300,000 to the new estimate of \$800,000 to account for the impact of the recession and personal and business related travel reductions. The Town anticipates a small rebound in this revenue next year to \$900,000 for FY 2003/04. The recovery factors in estimates of a full year of operations for the Hotel Los Gatos which opened in December 2002.

Franchise Fees, include fees from PG&E for electricity and natural gas sales, and AT&T for cable franchise fees, which reflect a 13.72% decrease from the prior year. The decrease is attributable to the lower gross receipts for electricity and gas usage based on current consumption trends and lower garbage franchise fees related to the slowdown of construction and demolition activity.

Business License revenue reflects an increase of \$65,000 or 6.5% from the prior year to forecasted actual collections for FY 2003/04. The Business License revenue projection remains relatively flat for next fiscal year, however staff is reviewing the licensing policy for the potential to increase revenues.

Although some allowance was made in the revenue estimate for these policy changes beginning in January 2004, implementation of changes will not occur without stakeholder input and Council approval.

Service Charges reflect a growth of \$172,136 or 8.2%, incorporating approximately \$120,000 of fee increase revenue supplemented by staff estimates of modest increases in volume activity from the prior year adopted budget. Certain fees were examined and recommended to Town Council for some level of revision to ensure that the Town follows its financial policies requiring that “fees are maintained to provide for cost recovery based on the cost of the Town providing the services.”

Fines and Forfeitures show a large increase of \$113,500 or 144.59% from the prior year. The majority of the increase is due to an accounting procedure change (not increased citations) that moved violation citation revenues out of the Parking Fund and placing them more appropriately in the General Fund where the cost of traffic policing activity occurs.

Motor Vehicle License Fee revenue is proposed to remain at FY 2002/03 adjusted budget levels of \$1,632,000. The Town has been very proactive in its efforts to keep Motor Vehicle License Fee revenue protected from State takes. The Town, in coordination with many state representatives in the State Assembly and Senate, the League of California Cities, California Police Chiefs, California Society of Municipal Finance Officers, among others, along with many other local governments worked very hard in FY 2002/03 to protect this vital revenue source. This fee was targeted as part of the Governor’s mid year budget proposal during FY 2002/03, but the recommendation was unsuccessful, in large measure due to these efforts. The Town will continue defending this revenue from reductions that may be proposed this summer as part of the solution to the State’s budget crisis. For Tier I purposes, the Town is not budgeting any State take of this revenue, however approximately \$250,000 of a total \$500,000 reduction has been deducted from other State Intergovernmental revenues to provide a cushion in case the Town is unsuccessful in its efforts. A more severe State take may cause the Town to invoke appropriate levels of Tier II reductions as described later.

Motor Vehicle License Fee & Intergovernmental Revenues reflect an increase of \$156,104 or 12.87%. This reflects the net of an increase in Debt Service revenues received by the Town from the RDA (\$679,083) for the 2002 COP Debt Service. These reimbursement revenues were not budgeted in FY 2002/03. This increase in revenues was offset by staff’s estimate of assumed budget reductions resulting from the State budget crisis. These reductions were made as the Town’s conservative estimate of approximately \$500,000 (including the \$250,000 mentioned above) of Tier I revenue as a result of the State’s budget crisis. The \$500,000 cut is only an estimate at the time of this budget preparation. The actual reductions, if any, will be determined more clearly in late summer or early fall as the State’s budget deliberations progress. This revenue category includes items such as State mandated cost reimbursements, booking fee reimbursements, and special programs. Staff will be working diligently to protect these State revenue reimbursements through the legislative process, but due to the size of the State problem, staff believes that the Tier I budget assumptions needed to include a provision for some loss in State revenue.

Interest Earnings are projected to decrease by \$439,750 or 27.54% from the prior year’s adopted budget due to the cumulative effect of a series of interest rate reductions by the Federal Reserve, dropping the interest rates available in the investment market to historically low levels not seen since the 1960’s. There is also an expected decrease in overall average monthly portfolio size due to the capital construction activity contemplated in the first year (2003/04) of the Town’s FY 2003-08 Capital Improvement Plan.

Fund Transfers are planned to decrease \$117,800 or 10.82% from the prior year. The decrease from the adopted budget in the prior year is based on an analysis of historical funding approaches to its Internal Service Funds. The analysis determined that certain Internal Service Funds like the Equipment

Replacement, Worker's Compensation, and Self-Insurance Funds were funded to levels that were more than adequate for their respective financial requirements. The Town took two actions to address the over-funding. One was to determine current costs and set internal service rates charged to operating departments at proper levels. The second was to rebate over-collections from prior years to the General Fund programs that originally paid these costs through the fund transfer from Internal Service funds to the General Fund. Using rebate transfers rather than artificially reducing current charges to programs below current costs, aids in preventing a spike in Internal Service charges to operating programs in future years. The Town's five-year plan through FY 2003-2008 schedules the draw of these excess balances over a five year period in amounts of 20% lower than the prior year, gradually eliminating these rebates in anticipation of revenue recoveries that can replace the loss of the rebate revenue.

General Fund Expenditure Summary

As shown in the schedule below, adjusting the FY 2002/03 & 2003/04 expenditures by the COP Debt Service and start-up Parking Fund subsidies, the proposed FY 2003/04 operating budget represents a \$1,358,953 or 5.58% decrease from net FY 2002/03 adopted operating expenditures of \$24,337,358. The 5.58% decrease represents the net effect of the substantial efforts made as part of the Tier I budget decreases recommended for FY 2003/04. The Tier I budget reflects the Town's decrease in operating expenditures in response to forecast declines in operating revenues. It is important to note that the display of the FY 2002/2003 Adjusted Budget figures throughout this document represents the adopted budget modified by any budget revisions approved by Council during the fiscal year, including carryovers and the mid-year budget adjustments approved by Town Council in February 2003.

	Adopted Budget FY 02/03	Adjusted Budget FY 02/03	Proposed Budget FY 03/04	Percent Change From Adopted
General Fund Expenditures				
Town Offices	697,200	655,368	649,780	(6.80%)
Mayor & Council	160,000	150,400	143,700	(10.19%)
Town Manager	2,153,400	2,041,193	1,902,240	(11.66%)
Community Development	2,548,250	2,466,853	2,443,350	(4.12%)
Parks & Public Works	5,032,685	4,749,682	4,893,910	(4.45%) (1)
Police Department	9,595,590	9,445,020	9,014,560	(6.06%)
Community Services	1,007,676	983,604	957,550	(4.97%)
Library	1,882,600	1,800,747	1,775,265	(5.70%)
Non-Departmental	1,562,107	1,620,100	2,328,508	49.06% (2)
TOTAL Operating Expenditures	24,639,508	23,912,967	24,108,863	(2.15%)
Less: 1991 & 2002 COP Debt Service	(250,000)	(250,000)	(930,878)	
Parking Program Start-Up Costs	(52,150)		(199,580)	
TOTAL Net Operating Expenditures	24,337,358	23,662,967	22,978,405	(5.58%)

(1) % reduction net of \$85,000 pass-throughs with matching revenue source in the same amount

(2) Non Departmental increased \$679,083 to provide for 2002 COP Debt Service reimbursed fully by RDA

Adopted Budget FY 2002/03	24,337,358	
Recommended Budget FY 2003/04	(22,978,405)	
Net Reduction	<u>1,358,953</u>	<u>(5.58%)</u>

TIER I and TIER II BUDGET RECOMMENDATIONS

The General Fund expenditures presented above represent recommended Tier I budgets for all Town departments. The General Fund is the primary source of funding for basic Town services. The General Fund departments of the Town include the Town Offices (Town Council, Town Clerk, Treasurer, and Town Attorney) the Town Manager, (Town Manger's Office, Human Resources, Finance & Administrative Services) Police Department, Parks and Public Works, Community Development, Community Services, and the Library. Tier I budget reductions impact service levels to the community in each department to varying degrees. Tier I personnel reductions include the de-funding or elimination of currently vacant positions and voluntary reductions of work hours for some currently filled positions. Also included are reductions of temporary employee hours used by departments to augment staff during peak activity or to perform special projects.

Tier II planned reductions, totaling approximately \$1.1 million, are developed and ready for implementation but have not been formally incorporated into the budget. Staff's plans are to wait until the fall of 2003 when any effects of the State budget crisis are anticipated to be more quantifiable in terms of impacts to the Town. Staff will also have some FY 2003/04 revenue actuals to provide some insight on developing revenue trends. If there are significant State revenue takes beyond the current estimates, or the downturn's effects on local revenues are more serious, staff envisions recommending to Town Council some or all of the Tier II plan reductions be implemented. Specific details of those proposals would be presented at that time. Staff believes it also appropriate to use one-time reserve funding for any personnel related or organizational/structural down-sizing transitional costs. Tier II budgeted personnel reductions are more serious, with departments recommending the elimination of filled positions and ultimately, the layoff of Town employees with the accompanying loss in service levels to the community. In an organization of the Town's size, any reduction in staffing will have a direct impact on the department's ability to provide public services to the community. Current recommendations by departments involve at least 10.25 positions that may be eliminated under a Tier II scenario. Additionally, further reductions in temporary staff hours are proposed, further reducing the department's ability to provide the service levels the community has been accustomed to receiving.

Highlights of Tier I & II budget reductions and their impact to the community and service levels are discussed by Town Departments as follows:

Town Council

Tier I

Town Council Tier I reductions are proposed in a variety of expenditure categories. Budgeted overtime clerical support to Town Council was reduced potentially impacting administrative support for the Town Council. Reductions were also made in operating supplies & services and training allocations.

Tier II

Additional reductions would be proposed in available operating supplies & services and training. This expenditure reduction has an incrementally larger impact on program services.

Town Offices

Tier I

The Town Clerk's Office proposes eliminating temporary help hours impacting records retention related services, reductions were also made in supplies and services and training. The Town Treasurer reduced training costs and supplies and services. The Town Attorney reduced overtime available for special assignments, reduced outside legal counsel budget, and made reductions in legal subscription costs and services and supplies. The Town Attorney's reductions impact the funding available to address any unforeseen litigation involving the Town. In this case, alternative funding sources would have to be identified, potentially impacting other Town programs.

Tier II

The Town Clerk's Office proposes reductions in staffing totaling .25 full time equivalent (FTE). Service impacts associated with this reduction may involve reductions in passport service hours, response time increases to customer inquiries or requests, meeting support or in other related activities such as the processing of resolutions, contracts, or records retention issues. The Town Attorney would reduce further the budget for outside legal counsel, relying as much as is practical on in-house services unless litigation demands or expertise must be met with outside counsel. The next level of decrease for the Town Attorney would be a proposed reduction in legal assistant hours. This reduction would reduce administrative support for the processing of claims against the Town, litigation support coordination efforts, and general administrative support.

Town Manager

Tier I

The Town Manager's Office proposes a reduction of .25 FTE, most of this resulting in a de-funding of the Administrative Analyst support to the Town Manager's office. This reduction impacts the direct analytical and administrative support being provided to the Town Manager. The Finance program de-funded .6 FTE of the Accountant position sharing this position with Community Development, eliminated 275 hours of budgeted overtime, and reduced operating supplies and service reductions. These reductions will limit the accounting and administrative support available for information requests and peak workloads. Capital project accounting and available accounting support hours are reduced. With the ongoing initiative to increase Town-wide capacity and efficiency through process improvement, it is anticipated these impacts can be mitigated during the course of the fiscal year. The Human Resources program recommended significant reductions in the Human Resource Specialist support and Temporary Project Manager. The reductions were made possible by the slowdown in recruitment activities and staff hirings. Town-wide training costs were reduced, but funds are available from FY 2002/03 that will be carried forward for use in FY 2003/04. Reductions were also made in all Town Manager programs in overtime, office supplies and training.

Tier II

The Town Manager's Department's proposal is to recommend varying levels of reductions in temporary administrative support functions. The reduction in hours would have an impact on the Manager's office, significantly slowing clerical and administrative processes, and telephone customer support, and possible impacts to the efficiency of the Town Council agenda process. The Finance program recommends further FTE and temporary staff adjustments. All programs proposed additional reductions in overtime, supplies and services, and training expenses. All of these recommended reductions will affect service delivery, possibly causing disruptions in administrative services in a variety of areas including general accounting, records retention, invoice processing, and workload to prepare for audits and special reports. Human Resource program reductions will impact service delivery in the recruitment and hiring areas, though this impact may be mitigated by the continuing slowdown in these activities.

Community Development

Tier I

The Department was able to minimize service level impacts in its Tier I reductions by de-funding .4 FTE of Administrative Analyst support and sharing this authorized position with the Finance Department. Other reductions occur in operating services and supplies and overtime. One un-filled intern position was eliminated. These reductions will result in longer timelines for completion of projects to the General Plan Implementation Work Program. Additionally, staff will need to adjust work schedules to limit the use of overtime so that staff remains available to attend evening committee meetings.

Tier II

The Department recommends the elimination of the Code Compliance program as a General Fund program. The program is proposed to continue as a funded program through a new administrative citation program, making the program almost cost neutral to the General Fund. Staff recommends the new administrative citation program and cost recovery be pursued whether or not Tier II is implemented.

Police Department

Tier I

Police Department proposals for Tier I reductions occurred in several broad categories, including staffing, overtime, operating services and supplies, and equipment replacement delays. Overtime and non-essential training has been reduced or eliminated in funding. The Tier I budget reductions will affect dispatch services, patrol, investigations, support and community services, and outreach. Tier I reductions will affect each of these service areas to varying extents. The de-funding of four positions and the reductions in overtime budget will require the Department to focus on priority services, mitigating the reductions in staff resources through workload redistribution. As a result, service levels for lower priority services are likely to be negatively impacted.

Tier II

The Town's Police Department recommendations for Tier II reductions in order of implementation would be further reductions to the Investigations and the Personnel and Community Services programs, with its associated impacts to service delivery due to the reduction of key support functions within the department. The next level would be to reduce administrative support capabilities, possibly mitigated by departmental process efficiencies. The next recommended action involves reductions in support of the department's dispatch function with its attendant service level challenges, though the department would not reduce this service level below the minimum required for public safety response. The final Tier II recommendation would propose the reduction of patrol service levels. Impacts of such reductions are anticipated to be significant. The department would manage this reduction by focusing service level reductions as much as possible on non-essential duty services.

Parks & Public Works

Tier I

The Parks and Public Works department's recommendations for Tier I reductions involve reductions in operating expenditures and materials, especially in areas that do not risk public safety. The department also proposes realignment of staff costs to other funds, in addition to continuing to hold vacant three vacant authorized Maintenance Worker and one Maintenance Superintendent position. Other reductions were made by internal staff transfers to other programs that align more accurately with their work activities. The department is attempting to minimize service level impacts to the community through strategic deployment of staff to vital service areas, thereby protecting core service levels. Roadway materials costs are now proposed to be funded through Gas Tax funds, rather than the General Fund. These changes will enable the Department to achieve its Tier I budget, while continuing to provide key program services with some time delay for non-safety and non-emergency activities.

Tier II

The Parks & Public Works Department proposes that overtime be reduced to the extent feasible in all programs, impacting work schedules and possible disruptions to community service levels. The next level of proposed reductions is to limit or suspend the in-house parks improvement projects. The department would then recommend eliminating consultant civil engineering costs, possibly creating longer processing time for private development. Further reductions include transferring an additional portion of street and signal expense to the Gas Tax fund. This will reduce General Fund operating costs, but will limit available Gas Tax funds for future street related capital projects. The last phase recommended would be to adjust the organizational structure through a variety of strategies. Potentially all programs could experience community service level reductions due to organizational downsizing or

re-structuring. However these impacts may be reduced by Town-wide capacity development and the Department's continuing efficiency initiatives.

Community Services

Tier I

Community Services Tier I reductions recommend the continued vacancy of a de-funded Secretary II position, reductions in operating materials and supplies and a 79% reduction in overtime budget. These reductions will affect service delivery in the department's ability to provide coverage at special events such as Sunday Music in the Park concerts, the July 4th celebration, and the evening Volunteer Recognition event.

Tier II

Community Services staff proposes, in order of implementation, the following potential reductions: the Town no longer producing one-time public information pieces such as special editions of the Town newsletter, or the holiday shopping insert; reductions to temporary staff supporting the Neighborhood Center, which would limit support to the Town's customers during staff absences; reducing the furniture replacement budget; reductions in amounts available for the Town's community grant program; and reductions in the contract with the Town's Chamber of Commerce. Tier II reductions could be achieved through decreases in services or through seeking revenues from sponsorships or underwriting of specific programs.

Library

Tier I

Library staff proposes Tier I reductions to be accomplished through the de-funding of .5 FTE of an Administrative Analyst position. Funding for new library materials of all types (books, periodicals, media, databases) are reduced from approximately \$200,000 to \$100,000. Other reductions are in office supplies, training, and technology funding. De-funding of the Analyst position and an anticipated vacancy in an Associate Librarian position for six months of FY 2003/04 are included in the Tier I budget. If alternative means are not found to fund the vacant Librarian position, the result would be reduced hours of service to the public from 62 to 55 hours per week and reduced children's programming and outreach. If additional funding can be identified at the time the vacancy occurs, the vacancy will be filled with an employee at a lower classification, thus maintaining library service hours and services for FY 2003/04, and producing net savings relative to the Associate Librarian costs.

Tier II

Library staff recommends service level reductions in Youth Services and Adult Services. These reductions will likely result in a reduction of open library hours to five days per week. Services to the community such as the Second Graders Library Card Campaign and the Teen Reading Club would be significantly impacted or deleted. In addition to this decrease, staff would also recommend nearly \$25,000 of additional reductions be taken from the library new materials budget.

Summary

Town staff considered each recommended Tier I and Tier II reductions very thoughtfully, particularly mindful of minimizing the impact of budget reductions to the community in terms of services provided by each department. Tier II recommendations have been prioritized by each department based on information available at this point in time in terms of which reduction should be taken first, so as to limit service delivery impacts as much as possible in making any Tier II reductions. Tier II proposals will be updated for the circumstances that exist at the time if they must be considered for implementation.

FORMAT OF THE BUDGET DOCUMENT

Department budget information provides an introduction for each department that presents an executive summary level of Department Purpose, the department's Budget Overview, a department summary of proposed revenues and expenditures, and a proposed Department Staffing summary. The Department Summary is a high level overview, which provides a synopsis of significant budget changes in the proposed FY 2003/04 Annual Operating Budget from a departmental perspective. Following the departmental presentation are program presentations that include a Program Purpose description, a Summary of Revenues and Expenditures by program, Key Projects for FY 2003/04 by program, Key Services, Program Staffing showing full time equivalent (FTE) by position classification, and Program Workload and Performance Measures.

LOS GATOS REDEVELOPMENT AGENCY BUDGET OVERVIEW

As has been the case since its establishment, the FY 2003-2008 RDA Budget is presented to the Redevelopment Agency Board (Town Council) as a separate item. Although the Agency's and the Town's actions are coordinated, the RDA is a separate legal entity with its own set of obligations, authority and objectives. The RDA FY 2003-2008 budget fulfills Redevelopment Law requirements by outlining revenues, expenditures, and indebtedness while explaining the work program for the coming year and the previous year's achievements. The Budget implements an aggressive work program to complete key redevelopment projects in the Downtown area; initiates affordable housing projects using 20 percent housing set-aside funds, and undertakes an Economic Vitality Program for the Town.

Tax increment revenues to the Agency have grown significantly in recent years, enabling the agency to facilitate the issuance of approximately \$10.5 million in Town of Los Gatos Certificates of Participation in July 2002. These funds were programmed in the Town's FY 2003-2008 Capital Improvement Plan providing capital funding for a number of key projects within the Town's project area such as the Downtown Streetscape Project, Downtown Parking Improvements, and the Downtown Street Reconstruction, among others.

Staff is concerned at this time that the Redevelopment Agency may be threatened by an increased amount of ERAF shift resulting from the State budget crisis. Staff is continuing its efforts in association with the California Redevelopment Association to protect the vital tax increment revenues which fund the Agency's redevelopment efforts in the project area and its Low and Moderate Housing Program initiatives.

BUDGET DEVELOPMENT STRATEGIES FOR FY 2003/04

The FY 2003/04 budget keeps ongoing operating expenditures in balance with ongoing operating revenues, which are forecast to decline next fiscal year. Developing the FY 2003/04 Tier I budget according to this criteria was challenging. Each department developed a budget that maintains or limits the service level reductions to the community, while reducing costs to Tier I target levels. The development of the proposed FY 2003/04 budget used the following tools and assumptions:

Revenue Assumptions

General Fund revenue assumptions use current collections and projections of forecast revenues for FY 2003/04. Assumptions are based upon departmental revenue analysis and forecasts for FY 2003/04, county property tax estimates, and State revenue forecasts based upon current State budget deliberations.

Salary and Benefit Assumptions

Salary and benefit expenditures are projected according to contractual agreements with the Town's bargaining units, and on comparable levels for unrepresented employees. A provision in salary and

benefit cost estimates was made for the AFSCME bargaining unit, representing certain Parks & Public Works employees. Negotiations are in progress and could potentially impact the budgeted salary and benefit costs for FY 2003/04. Any adjustment to this provision will be incorporated into the final adopted budget for FY 2003/04.

Temporary cost containment measures for FY 2003/04 are under discussion in the organization. These include voluntary furloughs, mandatory furloughs and other changes which require agreement with the Town's bargaining units. Group I and II Management employees have agreed to defer consideration of salary adjustments that would normally occur in September 2003 to January 2004 for a savings of \$50,000 to the Town. Other savings from the initiatives under discussion are expected to occur incrementally throughout FY 2003/04.

De-funded Position Assumptions/Vacancies

As part of the expenditure reduction strategy, staff is continuing to "de-fund" a number of vacant authorized positions. Essentially these positions are frozen until a gradual recovery in Town revenues is confirmed through actual revenue collections in future fiscal years. Staff will review these de-funded positions in future years to determine if they should remain in de-funded status, be reduced or redeployed in the organization. Vacancies will be reviewed for potential attrition savings and structural reorganization opportunities as they occur. The Town de-funded approximately 16 FTE's in the FY 2003/04 budget for a total salary savings of approximately \$1,450,000.

Non-Personnel Cost Assumptions

Materials and supplies are projected based on estimated operating needs including requests for known increases in contractual and other commitments, and increases due to projected use. The FY 2003/04 budget balancing effort includes recommendations to reduce a number of these expenditure items by utilizing more efficient use of resources.

Internal Service Funds and Operating Reserves Assumptions

The Town uses Internal Service Funds to collect costs for administrative services and to allocate those costs to departments. Costs and funding rates are also established to reserve funds for future expenses associated with vehicle maintenance, equipment replacement, worker's compensation, and the self-insured portion of the Town's general liability claims. The rates and methods used to budget for these funds were reviewed by Finance staff in the development of the FY 2003/04 budget. The analysis revealed that some of the rates charged to the Town's General and Special Revenue operating departments and their respective programs could be adjusted, resulting in an expenditure reduction. These reductions provide a FY 2003/04 expenditure savings of approximately \$50,000 annually while maintaining strong reserves in the Internal Service Fund. Rebate revenue of \$600,000 from the Internal Service Funds is included in the FY 2003/04 budget. The Town's five year financial plan includes additional rebates in decreasing amounts each year to assist in balancing future budgets.

Budget Balancing Assumptions

The FY 2003/04 recommended Tier I budget is based on an uncertain economic climate, declines in local revenues, and a moderate decline in revenue resulting from the State budget crisis. The Town will continue to monitor revenues very closely in FY 2003/04. If revenues fall short of projections, the Town is in the position to act pro-actively by implementing various levels of Tier II budget reductions. The Town Council will be notified in a timely way of these developments should they occur.

Staff anticipates more solid information to be available in mid-to-late Fall of 2003. At that time, the Town may elect to continue to de-fund authorized positions, access some remaining excess balances in Internal Service funds as mentioned previously, or look for expenditure reduction or slowdown opportunities. If necessary the Town may also draw from its Reserves for Economic Uncertainty for transition cost associated with Tier II budget reductions. Staff recommends departmental Tier II reductions that affect Town personnel not be implemented until January 2004. The January

implementation date allows for sufficient notice to affected employees and to provide transitional assistance. Staff recommends that the Town utilize some of its one-time sources of funding such as Beginning Fund Balance or the Reserve for Economic Uncertainty to fund these one-time organizational transition costs.

CONTINUING INITIATIVES – From the FY 2002/03 Budget

The FY 2002/03 Annual Operating Budget strategically focused on providing quality service delivery and the implementation of key projects and new initiatives. These projects continue with the Proposed FY 2003/04 budget including the following:

Enhancing Service Delivery

Although resources are still somewhat limited, the Town has filled key vacancies, and as a result, is well-positioned to improve services, meet the community's needs, and more importantly, complete planned projects. Staff levels have enabled the Town to take a more customer-focused service delivery approach during FY 2002/03, concentrating on the analysis and enhancement of organizational processes and the implementation of key capital, planning, housing, economic vitality, and community-oriented projects.

Organizational Effectiveness

Staff continues to evaluate and refine existing internal and inter-departmental processes to enhance service delivery to the community. These efforts have included the development of core teams to address customer service issues, budget and finance processes, and department operational needs. Additionally, staff in coordination with the Town Attorney and other applicable departments, will analyze the feasibility of an in house administrative hearing process for code violation citations, providing a better match of resources and costs necessary to enforce the Town's code.

Public Information and Community Outreach

The Town continues to enhance communication with the community through a variety of methods. Activities planned for FY 2003/04 include utilizing community outreach guidelines to ensure effective consistent communication with the public about meetings and events; enhancing the Town's web site to more fully utilize it as a communication vehicle for the public; holding Town meetings in the neighborhoods; and conducting customer and community-wide surveys to assess satisfaction with Town services.

Traffic Calming Efforts

With the Town Engineer and Traffic Engineer position filled, the Town is able to place greater attention on traffic issues that are of significance to the community. Staff support has resulted in the development of a traffic calming work plan and revision of traffic calming policies.

General Plan Implementation

Staff completed the Housing Element of the General Plan during FY 2003/04. Other projects planned for FY 2003/04 include the preparation of the Hillside Standards Ordinance and the North 40 Specific Plan.

Economic Vitality Efforts

The Town's Redevelopment Manager continued to focus on redevelopment and housing priorities, including economic vitality efforts. This new addition has enabled the Town to develop an Economic Vitality Plan to address business retention and expansion; promote business recognition and visitations; and conduct ongoing outreach to the local business community, including businesses, property owners, and auto dealers. Additionally, the Town's Banner Program, which is administered through the RDA, is now beginning implementation. It is anticipated that the banners will be installed this summer. The Redevelopment Manager will also be coordinating the formation of a Council approved Economic

Advisory Roundtable selected from among various sectors of the Los Gatos business community to advise the Town on economic vitality efforts.

SPECIAL PROJECTS AND NEW INITIATIVES - Priorities for the FY 2003/04 Budget

Despite the economic downturn and Tier I reductions, FY 2003/04 will be another year of equally high activity. The FY 2003/04 annual budget provides funding for several projects and initiatives underway in FY 2002/03. A number of these projects and initiatives are currently in progress and are anticipated to be implemented in FY 2003/04. Some of the more significant projects and initiatives funded for FY 2003/04 include:

Civic Center/Library Master Plan

Staff work will continue on the development of a Civic Center/Library Master Plan where substantial progress was made in FY 2002/03. The proposed FY 2003-2008 Capital Improvement Program (CIP) includes continued carryover funding for this master planning process (\$287,450 total budget). Phase I of the Master Plan project, which involved an assessment of Town services, was completed in FY 2002/03. Phase II, the Operational Plan and Space Program, will be brought to the Council in Fall, 2003. Upon Council approval, Phase III, which will involve the development of master plan concepts will occur during FY 2003/04, as well.

Downtown Parking Program

The Parking Management Program was approved by Town Council in December 2001, and is being implemented. Six zones are defined with new signs and regulations. A special feature of the plan includes employee permits. The first zone called the Olive Zone was completed December 20, 2002. The second zone is scheduled to be reviewed by Town Council for implementation at the end of the summer's Downtown Streetscape project activity. The Verizon Lot plans are under review and the lot is expected to be in use for unlimited parking by 3rd Quarter 2003. Staff continues to evaluate and make adjustments to the phasing of various aspects of the implementation plan.

Cable Television Franchise Negotiations

Continued funding has been provided in the non-departmental budget for the cable television franchise negotiations (\$80,000). Funding provides consultant support to assist with the negotiation process, and an assessment to identify the community's communications needs. The needs assessment is in progress and is anticipated to be completed by the end of Summer 2003. Development of negotiation strategies is anticipated to begin in the Fall of 2003.

Performance Measures

The FY 2003/04 budget includes the addition of new Performance Measures and Activity and Workload Highlights. The Performance Measures indicate how well the Town is providing a particular service, and the activity and workload highlights indicate the scope of the services provided (e.g., how many trees trimmed, how many pieces of equipment maintained, how many volunteers enlisted, etc.). The performance measures focus on assessing customer satisfaction with the Town's services. A Town-wide resident satisfaction survey and specific customer surveys conducted over the course of the fiscal year will provide data for these measures, which will be incorporated in next year's budget and annually thereafter.

UNFUNDED BUDGET REQUESTS

The Town has received one budget request for additional funding from another agency. The Wildlife Center of Los Gatos, a non-profit organization that provides services to wildlife within the environs of Los Gatos submitted a funding request to the Town. The agency receives Town funding through Silicon

Valley Animal Control Authority (SVACA). Town staff advised the Center that it was not recommending funding a separate grant to the Wildlife Center outside of the SVACA allocation process. The SVACA board has tentatively approved a funding allocation in its FY 2003/04 budget of \$28,874.

CONCLUSION

The Town positioned itself well to react to the continued economic downturn by pro-active steps taken in prior years, with actions such as strategic hiring freezes, expenditure reductions and slowdowns, and departmental efficiencies. The FY 2003/04 Annual Operating and Capital Budget proposes a conservative approach to address the Town's current priority service needs in a fiscally responsible manner, aligning organizational service levels with projected operating revenue streams. The emphasis for FY 2003/04 will be strengthening core services and limiting service level impacts from Tier I reductions, emphasizing completion of FY 2002/03 special projects and initiatives, and carrying out an aggressive first year of the FY 2003-2008 Capital Improvement Program plan.

Town staff will continue to look for ways to better use existing resources to facilitate the delivery of priority services through staff redeployments, restructuring, new ways of doing business and delivering Town services to the community. These efforts will be the result of the Town's investment in the tools necessary to assist staff to create these efficiencies.

Staff's vigilance in tracking the economic climate to proactively respond to changing conditions will remain a priority. Changes needed to respond to more severe revenue declines or State revenue take-aways will be brought to Town Council's attention in a timely manner so that the Town can implement its Tier II budget balancing steps described earlier in this budget message.

I wish to thank all of the departments, in particular, Department Directors and their Administrative Analysts, who worked diligently on the preparation of this budget document as well as the following staff members:

Stephen Conway, Director of Finance and Administrative Services
Mary Furey, Accounting Manager
Pamela Jacobs, Assistant Town Manager
Glenda Cracknell, Sr. Account Technician
Stephanie Gutowski, Finance Project Coordinator
Gayle Barr, Sr. Account Technician
Jenny Haruyama, Administrative Analyst
Linda de Bar, Accountant

Respectfully submitted,

Debra J. Figone
Town Manager



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Town of Los Gatos
California**

For the Fiscal Year Beginning
July 1, 2002

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the Town of Los Gatos, California for its annual budget for the fiscal year beginning July 1, 2002. In order to receive this award, a government unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

BUDGET PROCESS OVERVIEW

The Town of Los Gatos adopts an annual Operating and Capital Budget and an annual budget update of the five-year Capital Improvement Plan for the Town and its' Redevelopment Agency. The budgets contain summary level information for revenue and expenditure appropriations for the fiscal year beginning July 1 and ending June 30th.

Budget Purpose

These budget documents serve as the Town's financial plan, as well as a policy document, a communications tool, and an operations guide. Developed with an emphasis on long range planning, service delivery, and program management, a fundamental purpose of these documents is to provide a linkage between the services and projects the Town and RDA intends to accomplish and the resources committed to get the work done.

The format of the budget facilitates this linkage by clearly identifying program purpose and workplan goals in relation to revenue and expenditures appropriations.

Basis of Budgeting and Accounting

Developed on a program basis with fund level authority, the Operating and Capital Summary Budget depicts the services provided by the Town through the resources allocated for the provision of these services.

The Town's Governmental Funds consist of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds for both the Town and the Redevelopment Agency (RDA).

Basis of Accounting and Budget refers to the timing factor concept in recognizing transactions. This basis is a key component of the overall

financial system because the budget determines the accounting system. For example, if the budget anticipates revenues on a cash basis, the accounting system must record only cash revenues as receipts. If the budget uses an accrual basis, accounting must do likewise. The Town uses a combination of modified accrual and full accrual basis in accounting and budget.

Governmental Fund types and RDA fund budgets are developed using the modified accrual basis of accounting. Under this basis, revenues are estimated for the period if they are susceptible to accrual, e.g. amounts can be determined and will be collected within the current period. Principal and interest on general long-term debt are budgeted as expenditures when due, whereas other expenditures are budgeted for liabilities expected to be incurred during the current period.

Proprietary fund budgets are adopted using the full accrual basis of accounting whereby revenue budget projections are developed recognizing revenues expected to be earned during the period, and expenditures are developed for expenses anticipated to be incurred in the fiscal year.

The Town's fiduciary funds are also budgeted under the modified accrual basis. The Town administers two trust funds and one agency fund. Trust funds are subject to trust agreement guidelines, and the Agency Fund is held in a purely custodial capacity involving only the receipt, temporary investment, and remittance of resources.

Summary of Budget Development

Town budgets are developed using a team-based budgeting approach. Town Management and the Finance Department guides the process through budget development, however program budgets and workplans are developed with the department's Director, Analyst and Program

Manager's oversight and expertise. This approach allows for hands-on planning and creates a clearer understanding for both management and staff of a program's goals and functions to be accomplished in the next budget year.

The Budget Development Process

Typically the Operating and Summary Budget process begins in the fall with the Town Council and Town Manager's cooperative development and refinement of initiatives and directives for the upcoming budget year. The CIP is also reviewed during this time to determine new initiatives, project priority, and to refine project workplans. Although the CIP budget document is prepared separately from the Operating and Capital Budget, the CIP information is incorporated into the operating budget document through resulting operating functions and service level requirements.

In January the budget preparation process begins officially for staff with a budget kickoff meeting. Budget assumptions, directives and initiatives developed by Town Council and Management are provided to set the Town's overall objectives and goals. Department and agency staff identify and analyze program revenue and expenditure projections in coordination with Finance/Budget staff and Town management. Through rounds of budget briefings and revisions, staff's final program budget and workplans are developed by the end of April. During the month of May, the Finance/Budget staff prepares financial summary information for Town Council review in addition to the departmental budgets and workplans.

Adoption

Section 2.30.295(b) of the Los Gatos Town Code requires the Town Manager to annually prepare and submit a budget to the Town Council. This is accomplished in early June, when the proposed budget is formally submitted to the Town Council in a public hearing. Notice of the hearing is published in a local newspaper at least ten days prior to the public hearing date. The public is invited to participate and copies of the proposed budget are available for review in the Town Clerk's office and at the budget hearing.

Final council-directed revisions to the proposed budget are made and the budget documents are resubmitted to the Town Council for adoption, again in a publicized public hearing prior to the beginning of the fiscal year. The approved resolutions to adopt the CIP and operating budgets and the appropriation limitation follow this section.

Budget Amendments

During the course of the fiscal year, workplan changes and unanticipated needs will necessitate adjustments to the adopted budget. The Town Manager is authorized to transfer appropriations between categories, departments, projects, and programs within a fund in the adopted budget, whereas the Town Council holds the authority for budget increases and decreases and transfers between funds.

BUDGET CALENDAR

**October /
November /
December**

CIP and RDA workplan proposals and development

- Determine project priority
- Prepare upcoming workplan, timing schedules
- Prepare cost estimates
- Determine revenue sources

Determine and refine initiatives and directives for upcoming budget year

Update User Fee Schedule

January

Prepare Internal Service and Equipment Replacement Fund analyses and schedules, finalize internal service rates

Budget Kick-off Meeting – General information to staff on:

- State of the Town
- Budget assumptions, directives, initiatives, and goals
- Development of department and program workplans
- Asset/Internal Services/Staffing request procedures

1st Draft revenue projections due to Budget Office

Analyze budget projections and review with Town Manager

February

1st Draft staffing requests due to Budget Office

Review and finalize staffing positions and requests

1st Draft asset, internal service requests, and expenditure requests due

1st Draft CIP and RDA Budget due to Budget Office

Review Internal Service requests with responsible Program Managers

1st Draft Internal Service budgets due to Budget Office

Incorporate approved staffing, assets, internal services and program expenditure requests into a 1st Draft budget

March

Review and analyze 1st Draft budget, briefing with Town Manager

1st Draft CIP / RDA budget briefing – determine program revisions

1st Draft budget briefings with Town Manager, Department Heads, and Analysts
– determine department / program revisions

2nd Draft budget revisions and workplans due to Budget Office

2nd Draft briefing and revisions with Town Manager, departments

April

Program narratives, financial and supplemental schedules, financial summaries,
and charts prepared

Grant distribution finalized

Budget revisions finalized and proposed budgets assembled

Proposed budget briefing with Town Manager

Distribute Proposed Operating and CIP budgets to Town Council

May

Public Hearings for proposed User Fee Schedule, Operating and Capital, CIP,
and RDA Budgets

Town Council revisions incorporated into budget documents

June

Public hearings for final adoption of the User Fee Schedule, Gann Appropriation
Limit, Operating and Capital Budget, and 5 year CIP and RDA Budgets

Final document preparation of financial and supplemental schedules, charts,
reference materials, etc.

July

Adopted Operating and CIP Budget documents finalized, printed and distributed

GANN APPROPRIATION LIMIT

On November 6, 1979 California voters approved Proposition 4, commonly known as the Gann Spending Limitation Initiative, establishing Article XIII B of the State Constitution. This proposition, which became effective in Fiscal Year 1980/81, mandated an appropriations (spending) limit on the amount of tax revenues that the State and most local government jurisdictions may appropriate within a fiscal year. This limit grows annually by a population and cost-of-living factor.

The State Appropriation Limit was since modified by two subsequent initiatives – Proposition 98 in 1988 and Proposition 111 in 1990. Proposition 98 established the return of tax revenues exceeding appropriation limit levels to the State or citizens through a process of refunds, rebates, or other means. Proposition 111 allowed more flexibility in the appropriation calculation factors.

Only tax proceeds are subject to this limit. Charges for services, fees, grants, loans, donations and other non-tax proceeds are excluded. Exemptions are also made for voter-approved debt, debt which existed prior to January 1, 1979, and for the cost of compliance with court or Federal government mandates.

The Town Council adopts an annual resolution establishing an appropriations limit for the following fiscal year using population and per capita personal income data provided by the State of California's Department of Finance. Each year's limit is based on the amount of tax proceeds that were authorized to be spent in fiscal year 1978/79, with inflationary adjustments made annually to reflect increases in population and the cost of living.

APPROPRIATION LIMIT CALCULATION

The following schedule reflects historical appropriation factors for the prior ten years, and the calculation for FY 2003/04:

Appropriation Limit Factors

Year Ended June 30	Beginning Appropriation Limit	County Population Factor	Town Population Factor	Per Capita Income	Ending Appropriation Limit	% Limit Increase
1994	11,386,895	1.0171	1.0128	1.0272	11,896,630	4.48%
1995	11,896,630	1.016	1.0201	1.0071	12,221,916	2.73%
1996	12,221,916	1.017	1.0001	1.0472	13,016,370	6.50%
1997	13,016,370	1.0800	1.007	1.0467	14,714,173	13.04%
1998	14,714,173	1.0216	1.0201	1.0467	15,733,994	6.93%
1999	15,733,994	1.0212	1.0137	1.0415	16,734,358	6.36%
2000	16,734,358	1.0173	1.0071	1.0453	17,795,043	6.34%
2001	17,795,043	1.0163	1.0095	1.0491	18,973,081	6.62%
2002	18,973,081	1.0147	1.0107	1.0782	20,757,490	9.40%
2003	20,757,490	1.0125	1.0051	0.9873	20,750,044	-0.04%
2004	20,750,044	1.0079	1.0010	1.0231	21,397,082	3.12%

☞ Gann Appropriation Limit ☞

The Town of Los Gatos' appropriation limit for fiscal year 2003/04 is calculated as follows:

FY 2003/04 Calculation

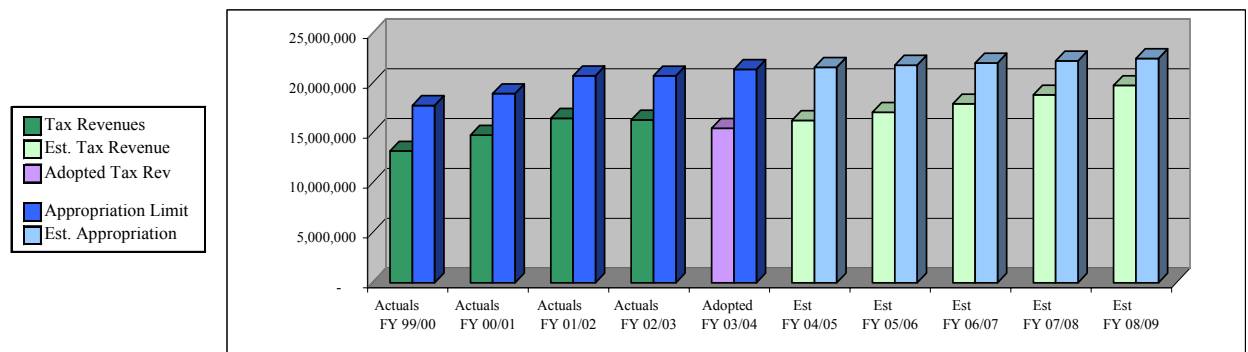
<u>% Increase in County Population</u>		<u>Change in Per Capita Income</u>		<u>Appropriation Factor</u>		<u>FY 02/03 Appropriation Limit</u>		<u>FY 03/04 Appropriation Limit</u>
1.0079	X	1.0231	=	1.03118249	X	\$ 20,750,044	=	\$ 21,397,082

As illustrated above, the total amount of tax revenues appropriated to the Town in FY 2003/04 is not to exceed \$21,397,082. The FY 2003/04 budget anticipates \$15,503,033 in tax revenues which equates to \$5,894,049 less than, or approximately 72% of, the appropriation limit for FY 2003/04. Therefore, the Town's tax revenues fall substantially below the appropriation limit.

APPROPRIATION TREND

Located in the Silicon Valley, Los Gatos has seen a significant increase in the county's population in recent years. In addition, Los Gatos is a desirable community known for its home-town feel and excellent schools, which is reflected in the steady increase in property values. Together, these factors contribute to a relatively stable appropriation limit while maintaining a comfortable margin between tax revenues received and the revenue limitation established under the Gann Proposition. Even under a very conservative forecast for an annual 5% revenue growth and 1% appropriation growth (shown below), there remains a strong expectation for an ongoing level of comfort in future year's appropriation margins.

Tax Revenues to Appropriation Limit 10 Year Trend



	<u>Actuals FY 99/00</u>	<u>Actuals FY 00/01</u>	<u>Actuals FY 01/02</u>	<u>Actuals FY 02/03</u>	<u>Adopted FY 03/04</u>	<u>Est FY 04/05</u>	<u>Est FY 05/06</u>	<u>Est FY 06/07</u>	<u>Est FY 07/08</u>	<u>Est FY 08/09</u>
Tax Revenues	13,216,580	14,801,600	16,507,000	16,328,519	15,503,033	16,278,185	17,092,094	17,946,699	18,844,034	19,786,235
Appropriation Limit	17,795,040	18,973,081	20,757,491	20,750,044	21,397,082	21,611,052	21,827,163	22,045,435	22,265,889	22,488,548
Revenue to Limit %	74%	78%	80%	79%	72%	75%	78%	81%	85%	88%

APPROPRIATION LIMIT ADOPTION

The resolution to adopt the appropriation limit of \$21,397,082 was adopted by Council via Resolution 2003-61, on June 2, 2003.

GANN APPROPRIATION RESOLUTION

RESOLUTION 2003 - 61

RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS ESTABLISHING THE 2003/04 FISCAL YEAR APPROPRIATION LIMIT FOR THE TOWN OF LOS GATOS

WHEREAS, the Town of Los Gatos has established its Base Year appropriation limit as \$5,849,120 (Five Million, Eight Hundred Forty-nine, One Hundred Twenty Dollars); and

WHEREAS, the cumulative appropriate changes to the Town's population, the Consumer Price Index, and per capita income statewide since the base year established the revised Proposition 111, 1996-97 Fiscal Year Appropriation Limit as \$14,714,173 (Fourteen Million, Seven Hundred Fourteen Thousand, One Hundred Seventy Three Dollars) as adjusted; and

WHEREAS, to the best of this Town's knowledge and belief, the State Department of Finance figures provided to this Town in response to Proposition 111 passed by the voters in June 1990, as audited, reflect the appropriate statistics relevant to the calculation of the 2003/04 Fiscal Year Appropriation Limit:

- County population adjustments for 2003/04, plus 1.0079 (One point zero zero seven nine percent)
- Town population adjustments for 2003/04, plus 1.0010 (One point zero zero one zero percent)
- Per Capita Personal Income change for 2003/04, plus 1.0231 (One point zero two three one percent).

GANN APPROPRIATION RESOLUTION

THEREFORE, BE IT RESOLVED, based on the foregoing figures and the provisions of Article XIII B of the Constitution of the State of California, the following figure accurately represents the 2003/04 Fiscal Year Appropriation Limit for the Town of Los Gatos as: \$21,397,082 (Twenty One Million, Three Hundred Ninety Seven Thousand, Eighty Two Dollars).

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 2nd day of June, 2003 by the following vote:

COUNCIL MEMBERS:

AYES: Steve Glickman, Diane McNutt, Joe Pirzynski, Mike Wasserman,
Mayor Sandy Decker

NAYS: None

ABSENT: None

ABSTAIN: None

SIGNED:


MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

ATTEST:


CLERK OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

TOWN OF LOS GATOS ANNUAL BUDGET RESOLUTION

RESOLUTION 2003 - 60

RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS APPROVING FISCAL YEAR 2003/04 OPERATING/CAPITAL BUDGET AND CARRY-FORWARD APPROPRIATIONS AND OTHER APPROVED ADJUSTMENTS RELATING TO MEET AND CONFER PROCESS, MANAGEMENT COMPENSATION PLAN, AND MINOR CORRECTIONS

WHEREAS, Section 2.30.295(b) of the Los Gatos Town Code requires the Town Manager to annually prepare and submit a budget to the Town Council and be responsible for its administration; and

WHEREAS, the Town Manager did submit a proposed budget for the 2003/04 to the Town Council; and

WHEREAS, the Town Manager did submit a proposed five-year capital improvement plan for FY's 2003-2008; and

WHEREAS, the Town Council has considered and reviewed said proposed budget and capital improvement plan during public hearings.

RESOLVED, that the Town Council hereby adopts as the budget for the Town of Los Gatos for the 2003/04 fiscal year the schedule entitled "Total Town Revenues By Fund and Total Town Expenditures By Fund" including the first year (FY 2003/04) of the Town's proposed Capital Improvement Plan as contained in the Town's Proposed FY's 2003-2008 Capital Improvement Plan.

BE IT FURTHER RESOLVED, that the final adopted budget include approved carry-forward expenditures from FY 2002-03 per the Schedule of Approved Carry-Forwards, and that there be carried forward from prior year's Reserve for Encumbrances within each fund an amount sufficient to cover approved outstanding encumbrances as of June 30, 2003.

BE IT FURTHER RESOLVED, that the Town Council hereby directs staff that any changes or impacts resulting from the Council approval of the meet and confer process, management compensation plan, or any miscellaneous corrections due to more refined estimates be incorporated within the final published FY 2003/04 Operating Budget.

TOWN OF LOS GATOS ANNUAL BUDGET RESOLUTION

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 2nd day of June, 2003 by the following vote:

COUNCIL MEMBERS:

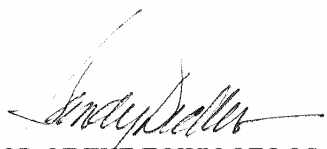
AYES: Steve Glickman, Diane McNutt, Joe Pirzynski, Mike Wasserman,
Mayor Sandy Decker.

NAYS: None

ABSENT: None

ABSTAIN: None

SIGNED:


MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

ATTEST:


CLERK OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

REDEVELOPMENT AGENCY ANNUAL & CAPITAL BUDGET RESOLUTION

RESOLUTION 2003 - 14RD

RESOLUTION OF THE REDEVELOPMENT AGENCY CONSENTING TO THE PROVISION OF PUBLIC IMPROVEMENTS BY THE LOS GATOS REDEVELOPMENT AGENCY AND MAKING MANDATORY FINDINGS IN REGARDS TO CAPITAL PROJECTS PROVIDED FOR IN THE LOS GATOS REDEVELOPMENT AGENCY FY 2003/04 OPERATING AND FY's 2003-2008 CAPITAL BUDGET

WHEREAS, Section 33445 of the Health and Safety Code requires the local legislative body to consent to the provision of public improvements by its Redevelopment Agency and make findings: 1) that the public improvements are of benefit to the project area or the immediate neighborhood of the project area; 2) that no other reasonable means of financing such public improvements are available to the community, and; 3) that the Agency's contribution to the cost of the public improvement or facility will assist in eliminating one or more blighting conditions in the project area, and is consistent with the Agency's implementation plan adopted pursuant to Section 33490 of the Health and Safety Code, the ("Implementation Plan"), and

WHEREAS, the Redevelopment Agency's 2003-2008 Budget provides funding for the following projects (the "Projects"): 1) Town Plaza Renovation; 2) Downtown Streetscape Improvements; 3) Downtown Area Street Reconstruction; 4) Redevelopment Area Alley Improvements; 5) Downtown Parking Improvements; 6) Fairview Plaza Pedestrian Path Improvements;

WHEREAS, the Projects will be of substantial benefit to the downtown business district and surrounding areas of the Central Los Gatos Redevelopment Project Area (the "Project Area") established pursuant to the 1991 Redevelopment Plan (the "Redevelopment Plan");

WHEREAS, the Town has limited financial resources for capital improvements and these funds are committed to other critical infrastructure needs of the Town such as repairing aging streets outside of the Project Area;

WHEREAS, the Projects have been specifically called for in the Town's Redevelopment Plan and Implementation Plan; and

WHEREAS, the Downtown infrastructure is currently in a deteriorated condition with broken pavement, deteriorated streets and alleys, deteriorated sidewalks and is functionally obsolescent and the Projects will help eliminate these blighting conditions;

THEREFORE BE IT RESOLVED, that the Town Council of the TOWN OF LOS GATOS does hereby consent to the provision of funding for the Projects by the Los Gatos Redevelopment Agency in accordance with the Agency's FY 2003/04 Operating and FY 2003-2008 Capital Budget totaling adopted revenues of \$5,278,613 and expenditures of \$7,245,797; and

REDEVELOPMENT AGENCY ANNUAL & CAPITAL BUDGET RESOLUTION

BE IT FURTHER RESOLVED, that the Agency Board hereby finds that the Projects are of benefit to the Project Area and the immediate neighborhood of the Project Area; and

BE IT FURTHER RESOLVED, that the Agency Board hereby finds that no other reasonable means of financing such public improvements are available to the community; and

BE IT FURTHER RESOLVED, that the Agency Board hereby finds that the Los Gatos Redevelopment Agency's contribution to the cost of the public improvements will assist in eliminating blighting conditions in the Project Area, and is consistent with the Implementation Plan.

BE IT FURTHER RESOLVED, that the Agency Board hereby directs staff that any changes or impacts resulting from the meet and confer process, management compensation plan adjustments, including position and classification plans, or any miscellaneous corrections due to more refined estimates be incorporated within the final published FY 2003/04 Operating Budget.

PASSED AND ADOPTED at a regular meeting of the Redevelopment Agency of the Town of Los Gatos held the 2nd day of June, 2003, by the following vote:

REDEVELOPMENT AGENCY MEMBERS:


AYES: Steve Glickman, Diane McNutt, Joe Pirzynski, Mike Wasserman,
Chair Sandy Decker

NAYS: None

ABSENT: None

ABSTAIN: None

SIGNED:


CHAIR OF THE REDEVELOPMENT AGENCY
TOWN OF LOS GATOS, CALIFORNIA

ATTEST:


SECRETARY OF THE REDEVELOPMENT AGENCY
TOWN OF LOS GATOS, CALIFORNIA

